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February 28, 2003

Ms. Marlene H. Dortch  
Secretary  
Federal Communications Commission  
The Portals  
445 12<sup>th</sup> Street, S.W.  
Washington, D.C. 20554

Re: CC Docket No. 96-45; CC Docket No. 98-171; CC Docket No. 90-571; CC Docket No. 92-237; CC Docket No. 99-200; CC Docket No. 95-116; CC Docket No. 98-170; NSD File No. L-00-72

Dear Ms. Dortch

On February 28, 2003, Clint Odom on behalf of Verizon, David Hostetter and Mike Tan on behalf of SBC, and I on behalf of BellSouth met with Jordan Goldstein, Senior Legal Advisor to Commissioner Copps. Larry Katz on behalf of Verizon participated in the meeting by telephone. The purpose of our meeting was to discuss the joint waiver petition filed by BellSouth, SBC and Verizon on February 6, 2003 in the FCC's universal service contribution proceeding. Attached is the handout used in connection with that meeting.

In accordance with Section 1.1206, I am filing this notice electronically and request that you please place it in the record of the proceedings identified above. Thank you.

Sincerely,



Kathleen B. Levitz

Attachment

cc: Jordan Goldstein

# Treatment of Centrex Customers

## Universal Service Contribution Mechanism

### Petition for Waiver Filed by Verizon, BellSouth and SBC

Verizon, BellSouth, and SBC ("Petitioners") concur in the Commission's action designed to bring carriers' end-user charges for universal service in line with their own contributions. That action needs some minor tweaking, however, to avoid unintended adverse effects, as outlined in the USTA and SBC Petitions.

Because action on those petitions is unlikely before the changes are to be effective (April 1), Petitioners are asking for a waiver to preserve the *status quo*, pending action on that petition, in two areas.

The grant of a waiver would be consistent with the FCC's policy of preventing carriers from charging their customers excessive universal service assessments:

- 4 Allow Petitioners to continue to average among and collect from all multi-line business customers the aggregate difference between the Centrex equivalency amount and the full contribution amount on each Centrex line, while reducing the charges to Centrex as permitted under the "equivalency ratio" referenced in section 69.158 of the Commission's rules. Grant of this interim waiver will prevent the very disruption to Centrex service that the Commission's long-standing equivalency policy is designed to prevent. Alternatively, Petitioners ask that the amount that it pays to USAC be reduced by the aggregate difference between the Centrex equivalency amount and the full contribution amount on each Centrex line without the reduction.
- 4 Allow Petitioners to continue to average among all customers within a given class universal service contribution recovery in connection with certain small and infrequent interstate charges (*i.e.*, end user PICC and PIC change) levied on some, but not all, members of that class. This will enable ILECs to avoid the need to make changes to their billing system to charge these customers on an individual basis, changes that would be unnecessary if the USTA or SBC petitions were granted or if the Commission ultimately adopts a contribution mechanism not linked to revenues. Also, Petitioners should be permitted to recover the universal service contributions associated with interstate services provided to Lifeline customers that are now unrecoverable from Lifeline customers under new rule 54.712(b).

Since 1997, the FCC's policy has been to allow ILECs to charge their Centrex customers for federally-mandated contributions at a ratio of 1:9 of the full business line rate.

- 4 The FCC recognized that Centrex service and PBXs are direct competitors, but that a single PBX trunk (which pays a single contribution) supports a number of separate lines behind the PBX.
- 4 The FCC adopted the equivalency ratio because it did not want to encourage a large customer to choose one of these arrangements (PBX) over another (Centrex), simply because one service was charged substantially more regulatory fees.
- 4 In at least three separate proceedings, the FCC correctly avoided distorting consumer choice in this market and adopted a 1:9 equivalency in applying regulatory charges – PICC, LNP, and CALLS FUSF recovery.

In the *Contribution Report and Order & Second Further Notice*, the FCC proposed to retain the equivalency factor in any connection-based mechanism, and there is no evidence in the R&O that it intended to abolish it there. The *Report and Order*, which adopted interim changes to the universal service contribution recovery mechanism, could be read to require carriers to charge the full universal service assessment on all customers, without Centrex equivalency reduction. This is because carriers' contribution payments to USAC are based on total interstate revenues, including the SLC, and Centrex customers pay full SLC charges.

By prohibiting carriers from charging any customer more than the customer's interstate bill times the contribution factor, the FCC has eliminated the ability of carriers to average among its multi-line business customers the 8/9 of the Centrex contribution not recovered from the Centrex customer, as they can today. Instead, they would need to charge Centrex customers the full contribution. USTA and SBC's petitions ask the FCC to clarify that this is not the case and that the amounts can continue to be recovered on an average basis. Grant of this waiver would allow Petitioners to continue that averaging while the FCC considers USTA and SBC's requests.